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SUBJECT: TURKEY: EURASIA SENIOR ADVISOR MANN MEETINGS ON ENERGY

REF: STATE 178586

Classified By: Economic Counsellor Thomas Goldberger. Reasons 1.4 (b/d)

1. (C) SUMMARY: In November 8 meetings with Turkish officials on energy issues, Eurasia Senior Advisor Steven Mann stressed the importance of a level playing field for American companies in Turkey's energy sector and unflagging USG support for a Bosphorus bypass and expansion of natural gas trade. Turkey is stuck with respect to approving a bypass route, for environmental and political concerns. Turkey and Russia are discussing potential energy deliverables in advance of President Putin's December 12 visit. END SUMMARY.

2. (SBU) Ambassador Mann participated in the following meetings on energy issues on November 8:
-Minister of Energy, Hilmi Guler, accompanied by Undersecretary, Sami Demirbilek and Pipelines Department Head, Nilgun Acikalin
-MFA Deputy DG for Energy, Hakki Akil, accompanied by Advisor, Basak Tug
-Energy Advisor to the President, Volkan Ediger
-MFA Deputy Undersecretary for Economic Affairs, Alev Kilic

U.S. Firms, Woes

3. (C) In meetings at the Turkish MFA and Energy Ministry (MENR), Ambassador Mann expressed growing concern that Turkish firms seemed to be favored over American firms with respect to a number of energy sector opportunities. Both Energy Minister Guler and MFA Deputy Director General Hakki Akil categorically rejected this assertion. With respect to U.S. firm Toreador-Madison's belief that it was suffering illegal discrimination in conflicts with Turkish state oil firm TPAO over Black Sea licensing, the officials said TPAO was acting according to Turkish law concerning offshore exploration. On the long-standing legal case about GOT Treasury non-performance on foreign exchange rate guarantees for repatriation of profits, MENR officials insisted that they were waiting for the Parliament to take action on a new law to protect foreign energy investors, capital from taxation to the extent profits are earned in Turkey. Mann replied that he understood that two Turkish law firms had concluded that Toreador-Madison's legal claims were sound. Finally, Undersecretary Demirbilek stated that the GOT was pushing TPAO to accelerate domestic oil and gas development efforts, and noted that implementation of Production Sharing Agreement legislation would encourage foreign energy firms, participation in Turkey.

Bosphorus Bypasses) American TDC Deserves Yea or Nay

4. (C) After rearticulating U.S. support for realization of a commercially feasible Bosphorus Bypass project, Mann repeated the message that American firm Thrace Development Company (TDC) deserved a timely response on its long-standing permit application to develop a trans-Thrace Bosphorus Bypass project. Minister Guler responded positively to Mann's specific request that MENR give TDC a chance to present and prove oil throughput guarantees and financial backing the firm claims it already has in hand; although Mann noted that the issue should not be a governmental concern: the investors were taking the risk on themselves for adequate throughput of lack thereof. Both the MENR and MFA interlocutors insisted that Turkey's goal was to secure a reduction in Bosphorus oil traffic by garnering a Bosphorus Bypass with oil throughput guarantees. Minister Guler stressed that the Turkey intra-ministerial process was still evaluating permit applications with respect to route and environment issues. He said that the Turkey absolutely did not want an empty pipe (like Odessa-Brody) and wanted to assure an environmentally sound project. Mann said potential investors should have the opportunity to obtain licenses that merely get them to the next step in the long process and would allow them to take the commercial risk of moving projects along, demonstrating oil throughput, financial backing, and environmental soundness. Both MENR and MFA officials insisted that the GOT process was focused only on route and not in anyway on specific companies. However, they noted that the potential

Samsun-Ceyhan route was in the forefront because of its use of existing right of way and available infrastructure and a perception that it was less problematic environmentally. Mann repeated the USG demarche that TDC be given the opportunity without further delay to demonstrate its project,s potential environmental rigor, using the existing standard of Baku-Tbilisi-Ceyhan (BTC).
Voluntary Principles Again

15. (C) Hakki Akil, GOT,s author and strongest proponent of the proposed &Voluntary Principles for Bosphorus Tanker Transit8, passed to Mann the newest draft of his Voluntary Principles (Septel). They noted that this new draft appeared more succinct and not commercially proscriptive and together noted that the most recent USG position (State 178586) seemed to be based on an earlier draft. Mann agreed to take a fresh look and reiterated that the essence of the USG position was that Voluntary Principles be truly informal and voluntary and not in any way antithetical to the principle of the market choosing Bosphorus bypass project(s).

Akil noted that the MFA had formally requested scheduling of a meeting in Moscow for him to present the Voluntary Principles to gain Russian engagement for the idea. He repeated the fundamental economic quandary that bypass first movers would grant potentially subsidized trade for shippers who continue to use the Straits. Akil also stated that the newest draft of the Voluntary Principles did not call for companies to share data. Finally, Akil asserted that Chevron-Texaco (which invited Bosphorus bypass sponsors to London to present their projects) was very receptive to the Voluntary Principles as a form of insurance policy (for potential delays and problems in transiting the Turkish Straits), but had told him: "We cannot go alone." Mann reminded Akil that GOT would never gain ironclad throughput guarantees without detailed engineering and subsequent tariff projections and this would only come after companies take conditional permits to the marketplace. He urged the GOT to take advantage of its privileged position of entertaining a number of viable options that pass solely through its territory. Echoing Akil,s assertions that the most current approach was market oriented, Presidential Advisor Erdiger also encouraged USG officials to give a favorable and constructive hearing to the Voluntary Principles.

The Russians are Coming

16. (C) Press reports have been full of speculation that GOT and Russian officials were discussing potential energy deliverables to announce at the time of President Putin,s (previously postponed) visit on December 12. Hakki Akil observed that Russian Transneft applied for a trans-Thrace oil bypass route (Note: late-comer, copy-cat for TDC,s route. End Note) for which the company claimed it could deliver 60 million tons per year (of 75 million tons the company,s CEO said it controlled). Akil repeated concerns about the difficulties with a trans-Thrace route (environmental NGO opposition and land acquisition cost) that put in question the possibility that a Thrace project could ever come to pass. He admitted that the GOT was endeavoring to convince Transneft to consider support for the Samsun-Ceyhan route that utilized existing pipeline right-of-way and port capacity. In response to Mann,s queries on the Samsun-Ceyhan pipeline right of way issue, Akil asserted that BTC controlled a 40-meter construction zone, but the environmental assessment covered a 500-meter zone, implying that a new Samsun-Ceyhan project could fruitfully piggy-back on this assessment.

BTC Celebrations and Future Gas

17. (C) In the meeting with President Sezer,s Energy Advisor, Volkan Erdiger, Mann described the status of BTC, noting that BTC construction seemed on track for sequential celebrations at the three key cities over the course of 2005. Mann attributed the summer problems in Georgia to the new administration there, specifically noting the following factors for the new Georgian government: 1) lack of familiarity with the project, 2) sincere concern about the environment, 3) opportunism on the part of new players, and 4) the new president wanting to stake out political protection (if the project causes environmental problems). Mann reviewed the strong message stated by various USG officials: "1) you have made commitments, 2) you don,t have many investments, and 3) you will get follow-on natural gas."

18. (C) Erdiger noted the importance of natural gas sector liberalization in process in Turkey. (Note: the GOT has just announced tenders for the state pipeline company BOTAS to transfer natural gas contracts. End Note.) Moreover, he stressed the importance of liberalization of natural gas distribution, and commented that Gazprom is interested in this opportunity. All interlocutors noted that

liberalization of Turkey,s natural gas sector would facilitate the transit of natural gas from Shah Deniz. GOT officials and Mann also agreed on the importance of together engaging Kazakhstan to move forward on links for oil from Aktau to Baku.

Turkmenistan Conundrum) and Russia

19. (C) All meetings touched on the notion of some day tying Turkmenistan,s formidable gas reserves to the budding East-West Corridor. Noting the history of the dashed hopes of the Trans-Caspian Gas Pipeline, which failed because the Turkmenistan President feared Russia,s ire, Mann said the U.S. remained hopeful- but skeptical- for new energy links to Turkmenistan. Mann suggested that President Niyazev show his seriousness by reaching agreement on Caspian delimitation. He noted that Azerbaijan,s President Aliyev was ready to deal with Turkmenistan, but had "no one to deal with there," according to Aliyev. Minister Guler asked for U.S. help for working with Russia and Iran on delimitation issues. Mann replied that in effect the Caspian has already been divided, but Iran hasn,t realized this; moreover, he said there was little the USG could do about Iran, but the USG would continue its longstanding role of supporting delimitation efforts both technically and politically. He suggested that Turkey would be most effective in working with Azerbaijan and Turkmenistan. Mann voiced concern that Gazprom was still working to derail Shah Deniz gas transit via the BTC follow-on South Caucasus Pipeline and consequent potential natural gas trans-shipment via Georgia and Turkey to Europe. He urged the GOT to join the USG in warning the Georgia Government against selling its high pressure natural gas network to Russian interests. MENR officials spoke of positive progress on the Nabucco gas project to Austria, but noted that Iran was still endeavoring to join this framework. Mann warned that Iranian participation would raise the issue of sanctions under U.S. law and policy.

Comment

110. (C) These meetings were useful in gauging current GOT thinking and restating U.S. positions on BTC, Bosphorus bypasses, and natural gas transit. Although some of the big questions in the East-West Corridor have been answered (BTC almost in hand), the next questions are harder to answer and will require vigilant U.S. attention: Who will step forward to sponsor a Bosphorus oil bypass pipeline? Can Turkey effectively liberalize and rationalize its natural gas market to facilitate transit to Europe (the next big step in the East-West Corridor)? Will Russian-Turkish cooperation in energy and Russian interest in the liberalizing Turkish natural gas sector be positive or negative? End Comment.

111. (U) Ambassador Mann has cleared this cable.
EDELMAN